

**SOUTH CAROLINA  
OFFICE OF THE ADJUTANT GENERAL  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 15, 2007

Major General Stanhope S. Spears  
Adjutant General  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the Adjutant General (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2006, in the areas addressed. The Office's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted, and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$300 – general fund, \$51,000 – earmarked fund, \$100 – restricted fund, and \$160,800 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Deposits in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Office, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$40,300 – general fund, \$38,200 – earmarked fund, and \$159,600 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$40,300 – general fund, \$38,200 – earmarked fund, and \$159,600 – federal fund) and  $\pm 10$  percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers, and Appropriation Transfers**

- We inspected selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

The journal entries selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Office to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Office's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Office's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Office's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of these procedures is presented in GAAP Closing Packages in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the Office and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in GAAP Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Office and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2005, to determine if the Agency had taken corrective action.

Our findings as a result of these procedures are presented in Deposits and GAAP Closing Packages in the Accountant's Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Office of the Adjutant General and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

**ACCOUNTANT'S COMMENTS**

## **SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS**

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.



## **DEPOSITS**

During our tests of cash receipts and revenue cutoff we determined that six of the fifty receipts tested were not deposited in a timely manner. In addition, we were unable to determine whether a seventh receipt in the sample was deposited timely because the receipt date was not documented and a copy of the check was not maintained. The majority of the receipts in question were originated by the various armories. We determined that these receipts were held between two weeks and three months prior to deposit. We were told that deployment of armory managers attributed to the deposit delays. Other deposit delays were the result of an employee resignation. Office personnel found undeposited receipts in the desk of an employee who had resigned. The receipts related to emergency preparedness activities. Based on the check date, we estimated that the checks had been on hand three to six months prior to being deposited. We also determined that the receipts were deposited in the wrong fiscal year. The Office recorded the receipts in fiscal month 01, fiscal year 2007 rather than as fiscal month 13, fiscal year 2006 revenue.

Section 72.1. of the fiscal year 2006 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical. In addition, the State Treasurer's letter of fiscal year end requirements stated that agencies had until July 18, 2006 to deposit all cash on hand at June 30, 2006 as fiscal month 13, fiscal year 2006 revenue.

We recommend that the Office establish procedures to ensure that receipts are deposited timely in accordance with State law. The Office should also ensure that accounting personnel adhere to the State Treasurer's year-end cut-off procedures. The Office should ensure that other personnel are adequately trained and can assume the duties of those key personnel in the event that they are on extended leave of absence. Finally, the Office needs

to reevaluate its internal controls over emergency preparedness cash receipts to determine why an employee was able to hold on to the payments without it being detected by someone else. It needs to develop and implement procedure to prevent future occurrences.

## **GAAP CLOSING PACKAGES**

### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages.

We determined that the Office submitted to the CG certain fiscal year 2006 closing packages that were incorrectly prepared and/or misstated. To accurately report the Office's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger". Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself.

The following describes the errors noted on certain fiscal year 2006 closing packages:

### **Accounts Payable**

We reviewed the Office's accounts payable closing package and noted the following errors:

1. Accounts payable for GAAP fund 4005 was understated \$70,926 because the spreadsheet formula used to calculate the liability omitted a cell in error.
2. The accounts payable closing package included vouchers with a total voucher amount of less than \$5,000.

The GAAP Manual, section 3.12 states: "Determine which items to report on Accounts Payable Summary Forms (GAAP Forms 3.12.1 through 3.12.3) by ... Reviewing voucher packets for vouchers paid in STARS FM01 and FM02 of the new fiscal year and invoices your agency plans to pay in the new fiscal year. Exclude from this review vouchers with a total voucher amount of less than \$5,000."

### **Interfund Payables**

The Office reported an interfund payable of \$179,086 from GAAP fund 4005 to GAAP fund 2009. This payable was not paid by the end of FM02, FY07 and the Office did not attach documentation describing the validity of the payable. The GAAP Manual, section 3.18 states: "It is expected that most interfund payables will be paid by the end of FM02 of the new fiscal year and will be detected in the review described above. However, if you know of interfund payables consisting of individual payments of \$100,000 or more your agency owes that have not been paid as of the end of FM02, please attach an additional sheet of paper to your Interfund Payables Summary Form describing these payables."

## **Operating Leases**

The Office reported four leases on its operating lease closing package. We noted the following errors:

1. One of the leases should not have been reported on the closing package because the lease renewal agreement was not signed until after June 30, 2006. This error resulted in an overstatement of future minimum lease payments of \$100,464.
2. The Office understated future minimum lease payments for one lease by \$3,917 because the calculation of the final year's payments excluded one month.

The GAAP Manual, section 3.19 states: "Leases in effect at June 30 include lease agreements signed on or before June 30. Your agency's obligation begins when both parties sign the lease agreement, whether the lease payments begin before or after June 30." This section further states: "The minimum lease payment is the minimum payment that the lessee must pay to the lessor during the fiscal year as specified in the lease agreement, excluding contingent rental payments."

## **Operating Lease – Lessor**

The Office reported twelve leases on its operating lease - lessor closing package. We noted the following errors:

1. Two of the leases should not have been reported on the closing package because they are cancelable leases. This error resulted in an overstatement of future minimum lease payments of \$195,000.
2. The Office could not provide us with the lease agreements and other supporting documentation for seven of the leases. We were therefore unable to verify the accuracy of the amounts reported.

The GAAP Manual, section 3.20 states: “For each current lease on property reported in Part A, determine if the lease is noncancelable (see Key Terms in Section 3.19) and whether it was in effect at the end of the fiscal year for which this Form is prepared. If so, determine the future minimum rental payments to be received and report these amounts in Part B.” This section further states: “Do not attach copies of lease agreements or other working papers to the Form that you send to the Comptroller General’s Office. Instead, retain these working papers at your agency.”

### **Cash and Investments**

The Office overstated its armory petty cash account balances \$3,000 on the cash and investments closing package. The error occurred because the Office reported actual rather than authorized balances for each of its petty cash accounts. The Office adjusted the balances for several of its petty cash accounts but did not request the State Auditor’s Office approval for changes in authorized balances.

The GAAP Manual, section 3.1 states: “Petty cash is reported at the amount authorized by the State Auditor’s Office, which may or may not be different from the actual balance on June 30.”

### **Capital Assets**

The Office was unable to provide us with documentation supporting the end-of-year capital asset balances and the current year depreciation amounts shown on its Capital Assets Summary Form. This is primarily due to the fact that the Office has not conducted an annual inventory of capital assets for the past several years.

The GAAP Manual, section 3.9 states: “In addition, the agency should keep:

- Working papers to support each number on these forms.
- A detailed listing of all capital assets as of June 30.

The detailed listing should:

- Clearly distinguish capital assets from any other items on the listing, such as non-capitalizable assets tracked as part of your agency’s internal control procedures. The Comptroller General’s Office requires agencies to tag all movable assets between \$1,000 and \$5,000, and to maintain a listing of these assets for internal control purposes only. However, we recommend a separate listing for these non-capitalizable assets.
- Include totals for all dollar fields.
- For each asset, the listing should show:
  - Property tag number if applicable.
  - Serial number or other unique identifying information when applicable.
  - Enough information about the asset’s location so an auditor can find it.
  - Date when the State received the asset or when the asset became available for State use.
  - Book value. (See Accounting Principles and Policies and Key Terms.)

In addition, South Carolina Code of Laws section 10-1-140 states: “The head of each department, agency, or institution of this State is responsible for all personal property under his supervision and each fiscal year shall make an inventory of all property under his supervision, except expendables.”

### **Grant/Contribution Revenues**

We reviewed the Office’s grant/contribution revenues closing package and noted the following:

1. Receivables for GAAP fund code 4005 were understated \$162,159 because of an error in the supporting schedule used to calculate the receivable.
2. The Office could not provide documentation to support whether any of the amounts shown as accounts payable on the supporting schedule represent qualifying expenditures under the grant awards. Therefore, the validity of grants receivable pertaining to these expenditures is not supported.
3. A reviewer’s checklist was not completed.

The GAAP Manual, section 3.3 states: "Complete the Grant/Contribution Revenue Closing Package Reviewer Checklist (GAAP Form 3.3.2) before submitting the completed closing package and retain it with your working papers for audit purposes."

### **Compensated Absences**

The Office understated the compensated absences liabilities for its governmental fund by \$37,199 and its enterprise fund by \$5,334. The error occurred because the Office excluded leave balance hours in excess of 360 from the calculation of the liabilities.

The GAAP Manual, section 3.17 states: "The accumulated unused annual leave earned by employees at June 30 is the actual annual leave balance in the agency's records for each employee."

### **Recommendations**

We recommend that the Office implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. The Office should design and implement procedures requiring an independent review of each closing package by an individual knowledgeable of closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package. This independent review should be documented using the applicable reviewer's checklist. The Office should perform an inventory of its capital assets and update its accounting records and closing package balances accordingly. Also, the Office should obtain State Auditor's Office approval for changes in authorized amounts for its petty cash accounts. Finally, we recommend that the Office retain all supporting documents and working papers with the closing package copies in accordance with GAAP Manual requirements.

## **SECTION B - STATUS OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office for the fiscal year ended June 30, 2005, and dated June 13, 2006. We determined that the Office has taken adequate corrective action on each of the findings except for the following which we have repeated in Section A:

### **2005 FINDING**

Untimely Deposits of Receipts

Deposits Not Recorded in the Proper Fiscal Year

Capital Assets Closing Package

Other Closing Packages (Reviewer's Checklist)

Other Closing Packages (Disaster Obligations)

### **2006 FINDING**

Deposits

Deposits

GAAP Closing Packages

GAAP Closing Packages

GAAP Closing Packages



## **MANAGEMENT'S RESPONSE**

### **Deposits**

1. A member of the Budget and Finance staff has been assigned the responsibility of audit review and following up on errors, discrepancies, and questionable transactions.
2. Copies of Checks and Deposit Slips from armories will be forwarded to Budget & Finance when the deposit is made.
3. An onsite Audit program has been organized and a staff member will review the Rental Program and Unit Maintenance Funds to ensure that proper procedures are being followed.
4. Delays in armory deposits will result in a notification to the appropriate military chain of command for action and follow-up.
5. EMD established procedures will be followed where deposits will coordinate through a single position and not be routed through a particular program.
6. Year End reviews will be performed to ensure that deposits are made in the correct Fiscal Year
7. Training will continue scheduled training programs to ensure proper procedures are understood and that standardized files and reports are maintained.

### **Closing Packages**

#### **Accounts Payable**

1. A procedure package will be maintained on all Closing Packages, including Accounts Payable, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets.
2. A complete review of the spreadsheets used where totals in the spreadsheet are footed and cross footed to reports will be performed.
3. Vouchers with totals of less than \$ 5000 will be excluded from the Accounts Payable Closing Package.

#### **Interfund Payables**

1. A procedure package will be maintained on all Closing Packages, including Interfund Payables, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets.
2. A review of all Interfund Payables for individual payments greater than \$100,000 will be performed to ensure that it is paid or documented.

#### **Operating Leases - Lessor**

1. A procedure package will be maintained on all Closing Packages, including Operating Leases - Lessors, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets.
2. All leases will be reviewed to ensure that reporting criteria is met.

#### **Cash and Investments**

1. A procedure package will be maintained on all Closing Packages, including Cash and Investments, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets
2. A request for change in authorization approved by the State Auditor's Office is on file for petty cash accounts. A check will be made to ensure that all petty cash accounts have proper authorization.

#### **Capital Assets**

1. A procedure package will be maintained on all Closing Packages, including Capital Assets, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets.
2. A member of Budget & Finance has been assigned the responsibility of State Property Officer reviewing all entries in SABAR including Land and Buildings and reviewing all assets on an annual or bi-annual basis.
3. The SABAR accounting software has not been maintained for Buildings and Land since 1999. SABAR will be updated with the correct transactions to add any land and facilities that have not been added and delete any land and facilities that have been disposed.
4. Assets added to SABAR will include all pertinent data to identify and locate the asset.
5. An annual inventory of capital assets will be conducted.

**Grant/Contribution Revenues**

1. A procedure package will be maintained on all Closing Packages, including Grant/Contribution Revenues, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheets.

**Compensated Absences**

1. A procedure package will be maintained on all Closing Packages, including Compensated Absences, containing all reports and documentation necessary to complete a closing package. The package will indicate the data required from the input documents and where they are to be entered into any spreadsheet.
2. All required leave balances will be used in calculating balances.

As noted, a procedure package will be established for each closing package. This procedure will indicate all documentation that is necessary to complete a closing package and where the reports can be obtained or how they are to be run. Pertinent values used in these reports will be highlighted with an indication of where they are included in the report.

All backup documentation will be attached to each package with cross references to the data reported in the package.

This procedure will help eliminate errors, speed up the process, and allow for an easier independent review.

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